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History of the inflation target

The Riksbank's inflation target was set in 1993, and formally the inflation target of 2 per cent began to apply in 1995. This made Sweden one of the first countries to introduce so-called inflation targeting policy. Prior to that, a fixed exchange rate acted as the anchor for price- and wage-setting.

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The time before the inflation target

The period before the inflation target was introduced was one with a fixed exchange rate. The idea behind the fixed exchange rate was that inflation in Sweden would be as low as our competitor countries, such as Germany. It was assumed that Swedish price and wage increases would be kept at the same low level as there, since higher domestic price and wage increases would make Swedish goods more expensive abroad and thus result in reduced exports and higher unemployment. However, this was not the case. Swedish inflation continued to be higher than in the rest of the world.

In the early 1990s, Sweden was in the midst of a deep economic crisis. The krona, which was pegged to the euro's predecessor, the ECU, was put under great pressure because participants in the financial markets expected Sweden would not be able to keep to the fixed exchange rate. After stubborn defence of the krona, via several political rescue packages and sharp interest rate increases by the Riksbank, Sweden was finally forced to abandon the fixed exchange rate on 19 November 1992.

When the Swedish krona was floated, the immediate result was a rapid depreciation of the exchange rate. Since then, Sweden has maintained a floating exchange rate, which means that the value of the krona against other currencies is allowed to fluctuate. In connection with the adoption of a floating exchange rate, a new monetary policy norm was also established, in which price stability was to be achieved via a direct target for inflation.

Establishment of the inflation target

In January 1993, the Riksbank announced that price stability, even with a floating exchange rate, was still the overall objective of monetary policy. Price stability would now be achieved by giving monetary policy a direct inflation target of 2 per cent, then measured as an annual increase in the consumer price index (CPI), with a tolerance level of +/- 1 percentage point. The idea of the tolerance interval was to make it clear that deviations from the inflation target were probable, and that the Riksbank's aim was to try to limit these deviations. The inflation target would formally begin to apply from 1 January 1995. Over the two years leading up to 1995, monetary policy was to be aimed at preventing the underlying rate of inflation, which had decreased to a level around two per cent, from increasing again. When the fixed exchange rate was abandoned, the value of the krona against other currencies had weakened substantially and there was a risk of it, together with other factors, pushing up inflation.

The decision to introduce the inflation target was taken by the General Council, which was then the decision-making body of the Riksbank. The General Council at that time consisted of eight members, with seven being selected by the Riksdag and the eighth, the Governor of the Riksbank, being appointed by the other

seven. Many of the members were active politicians. Read more on the page [Organisation](#), how the Riksbank is governed today.

Sweden then became one of the first countries in the world to conduct monetary policy with a floating exchange rate and a quantified inflation target. It now became important to create credibility in the new policy and to quickly build up confidence in the inflation target.

Changes to the inflation target and current definition

In 2017, the Riksbank decided to make inflation measured in terms of the CPIF (the consumer price index with a fixed interest rate) the formal target variable. The target for monetary policy is an annual change in the CPIF of 2 per cent. Read more about the [inflation target](#) and [how inflation is measured](#). The Riksbank shall also contribute to a balanced development in production and employment without disregarding the price stability target.

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